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**County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

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June 23, 2011

To: Supervisor Michael D. Antonovich, Mayor
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From: Jackie Contreras, Ph.D.
Acting Director

**REPORT ON THE EXTENT OF THE FRAUDULENT ACTIONS WITHIN THE
TRANSITIONAL HOUSING PROGRAM, THE MECHANISM TO DETECT FRAUDULENT
ACTIVITY, AND REPORTING MECHANISMS**

At the June 7, 2011 Board meeting, when a request was made to your Board to authorize the Auditor-Controller to reimburse a shortage in the Department of Children and Family Services' (DCFS) Transitional Housing Program youth trust fund, your Board instructed the Acting Director of DCFS to provide a report explaining how long the fraudulent actions had been taking place, what mechanisms were in place that would have triggered an awareness that the fraud was occurring, and what Board notification mechanisms were in place to report these types of events since the Board of Supervisors was only recently notified. This report was prepared in consultation with the Chief Executive Office, and with input from the Auditor-Controller.

HOW LONG THE FRAUDULENT ACTIONS HAD BEEN TAKING PLACE

The Auditor-Controller's (A-C) preliminary review of the deceased Probation employee's non-County receipt books, purchased from an office supply store, indicated that the deceased Probation employee began stealing money from youth participants that he was actively serving on June 26, 2010. The A-C is currently conducting a comprehensive review of 175 Transitional Housing Program participant trust fund accounts. The A-C is also in the process of reviewing all of the deceased Probation employee's caseload participants, including those who have exited the program, dating back to 2007.

WHAT MECHANISMS WERE IN PLACE TO DETECT FRAUD

The THP program had a number of mechanisms in place since its inception in the late 1990s to monitor program compliance including youth participation and contributions into their trust fund accounts. These program policies would have served to identify any fraudulent activities by employees had they been followed as expected. For example, the program had an established policy of not accepting cash for deposits into trust fund accounts; only money orders and cashiers checks written out to "THP" were to be accepted.

At initial THP orientation meetings, youth are informed of the no cash policy, and informed that case managers are required to reinforce the policy. The no cash policy is reinforced for the youth in writing when they sign their case plan; the case plan mandates that monthly deposits be made through money orders only. The limited number of recorded deposits submitted by the deceased Probation employee to the THP Accounting Unit were in the form of money orders only.

Protocols had been established for all levels of staff (management, supervisory and case managers) since the inception of the program to monitor the compliance and rate of THP youth participation into their trust fund savings accounts. If a youth did not contribute into their account in a three consecutive month period, staffings were to occur to address the issue. The case manager, the supervisor and the Children Services Administrator II manager are expected to attend the staffings. Additionally, monthly ledgers for youths who had made contributions to their trust fund accounts during the month were provided by the THP Accounting Unit to the Children's Services Administrator III over the program. The CSA III reviewed each ledger on a monthly basis and annotated where irregular or low deposit activities existed for specific youths. The annotated ledgers were forwarded to staff for review and case management. However, the CSA III did not consistently adhere to monitoring the reasons for the irregular or low deposit rates. Please note that if a ledger was not received, it meant that the youth had not made a contribution to the trust fund and after three months, this should also have triggered a staffing. Case managers were to meet with youth to review the ledgers and verify the accuracy of the information.

The Supervising Children's Social Worker (SCSW) who directly supervised the deceased Probation employee since his assignment to the THP program in 2007 stated that she held weekly supervision meetings with the deceased Probation employee. During these meetings she would discuss the rates of deposits for the youth on his caseload with him. The deceased Probation employee provided the explanation that the youths were not making deposits or that their deposits were low because the youth were unemployed. Given that this SCSW had supervised the deceased Probation employee for several years, on prior years the deceased Probation employee had had among the highest rate of deposits from youths under his supervision, and the fact that the SCSW believed the youths assigned to his caseload in the latter part of 2010 were experiencing difficulties obtaining gainful employment, the SCSW did not suspect any wrong-doing. The protocol related to holding a case staffing with the youth was not adhered to on a consistent basis by staff.

If either of the protocols by the CSA III, CSA II or SCSW had been followed, case conferences with the youths would have revealed the fact that their deposits were not being properly recorded. If the deceased Probation employee had not passed away, the fraud would have been uncovered when a case conference with a youth was held or a youth demanded their money. Upon the completion and receipt of the Auditor-Controller's report, the matter will be forwarded to Performance Management for employee disciplinary determination.

Please note that all completed departmental receipt books issued to all case managers were reviewed by the THP Accounting Unit for accuracy and identification of any inconsistencies with the trust fund ledgers. The receipt books were compared to the ledger system that was maintained to track the youths' deposits. The comparison confirmed that the amounts in the receipt books and ledger system were the same. Since 2002, no inconsistencies or irregularities were noted by the Accounting Unit.

The attached revised corrective action plan, with all strategies to be implemented this month, creates an accountability process that will ensure similar situations do not occur again. Effective June 9, 2011, monthly ledgers were issued directly to youths with instructions to review their trust fund account transactions. This initial review of ledgers included a cover memo from the Auditor-Controller asking the youths to report any inconsistencies directly to the Auditor-Controller. This will serve to determine if any other investigations are warranted. Subsequent monthly ledgers will provide similar instructions for youths to report inconsistencies directly to Youth Development Services (YDS) Division management.

Effective June 15, 2011, trust fund deposits made by youth were centralized by having youth directly submit to the THP Accounting Unit either in person or by mail. No case manager will be handling or accepting any trust fund deposits; thus, assigning the Accounting Unit as the primary recipient of funds rather than case managers. This change will guarantee a separation of duties, encourage youth to be active participants in managing their own resources, and limit the issuance of receipt books to minimize the potential for future fraud. Receipts by the THP Accounting Unit will have a double signature to ensure accountability on behalf of the youth.

Effective June 15, 2011, DCFS Housing management (CSA III and CSA II) began to utilize the accounting activity reports to meet monthly with the supervisors and case managers to identify deposit activity trends and identify any areas of concern. Summaries of these monthly meetings and discussion points will be submitted to the YDS Division Chief on a monthly basis. Any concerns related to YDS employee conduct determined from these strategies will be reported immediately to DCFS Human Resources and Internal Affairs.

WHAT BOARD NOTIFICATION MECHANISMS WERE IN PLACE TO REPORT THESE TYPES OF EVENTS

Notification to the Board should have been made immediately since the fraud impacted several youths and their trust fund accounts while under the supervision of the Department. Although the matter was referred for an independent investigation, notice should have been provided to the Board once any suspicion of fraud had been determined.

On March 7, 2011, after learning about the Deputy Probation Officer's death, the Probation Department was provided by the deceased employee's family with work-related official documents that had been in the employee's possession at his home. The Probation Department provided the documents to the Department of Children and Family Services. A review by program staff between March 7, 2011 and March 22, 2011, revealed the existence of unofficial receipt books that raised concerns regarding the validity of the amounts recorded on the youths' trust fund accounts. Between March 23, 2011, and March 29, 2011 the concerns regarding the fraudulent activity were reported to the Acting Deputy Director, Chief Deputy Director, and the then Acting Director. On March 29, 2011, the Acting Deputy Director was instructed by the then Chief Deputy Director to have YDS stop its internal review and to immediately refer the matter to DCFS Human Resources to determine the most appropriate entity to conduct the investigation. On March 29, 2011, the Chief Deputy Director informed the then Acting Director that the matter was being referred for investigation. DCFS Human Resources reviewed the materials, in consultation with our Risk Management Division, and Internal Affairs referred the matter to the Office of the Auditor-Controller for investigation. Between April 11 and 18, 2011, the initial findings of the Auditor-Controller' investigation were shared amongst members of the Department's Executive Team.

The preliminary findings included clear evidence that an undetermined amount of cash had been collected from youth and not deposited into trust fund accounts. On April 20, 2011 the Auditor-Controller returned all receipt books to the Department to allow THP staff to reconcile the accounts for all youths impacted by the situation. On April 21, 2011, the Auditor-Controller provided a summary of their preliminary investigation to the YDS Division Chief and the THP CSA III manager. The summary was provided to the Acting Deputy Director who forwarded a copy to the Administrative Deputy and the then Chief Deputy Director/Interim Director. On May 23, 2011, a partial reconciliation, which included affidavits from the youths, had been completed and shared with upper management for review. On May 25, 2011, the then Interim Director authorized pursuing reimbursement of youth accounts and requested the determination of the appropriate means to reimburse the trust fund accounts. On May 27, 2011, the then Interim Director was informed that Board authority was required to complete the reimbursement. On May 31, 2011, the Board Deputies were initially notified of the fraud and of the request to seek Board approval for reimbursement.

There were clear points in late March and late April 2011 whereby notification to the Board of Supervisors was warranted. The preliminary and developing information, along with the collaboration between the involved departments, during those initial months were issues that warranted notice and reporting to the Board. As noted in the attached corrective action plan, protocols are being developed to elevate issues of concern and to consistently and in a timely manner report those issues to the Board. Decision points for Board notification should include not only fiscal, programmatic, and service delivery issues impacting the department, but also issues directly impacting youth and their families as a result of fraud or misconduct by a County employee.

If you have any questions, please contact me, or your staff may contact Aldo Marin, of my staff, at (213) 351-5530.

Attachment

c: Chief Executive Officer
Auditor-Controller
County Counsel
Probation

JC:DW:hk

REVISED TRANSITIONAL HOUSING PROGRAM (THP) CORRECTIVE ACTION PLAN

Past Process/Weaknesses	New Process/Strengths	Date of Implementation	Person(s) Responsible	Increased Accountability Outcomes
<p>Decentralized receipt of payments/deposits from THP participants by ten (10) Housing Case Managers</p> <ul style="list-style-type: none"> • Requires issuance of 10 departmental receipt (DR) books for payment/deposit • Requires payment/deposit hand off to Accounting Unit from 10 different staff • DR books were only reviewed after all receipts were issued from the book. 	<p>Centralized receipt of payments/deposits from THP youths by one (1) designated THP Accounting person for walk-in deposits to Metroplex and one (1) designated THP Accounting person for mail-in payments/deposits, with the requirement of two (2) signatures on every receipt.</p> <ul style="list-style-type: none"> • Requires issuance of only two (2) departmental receipt (DR) books • First point of contact is the accounting unit rather than a Case Manager • Accounting unit reconciles any discrepancies • Ensures segregation of duties. 	6/15/11	<p>Program: Zachery Jenkins</p> <p>Accounting: Marie Quadra</p>	<ul style="list-style-type: none"> • Eliminate the "middle person" in the payment/deposit process (one less step involved with the process) • Youth interface directly with the accounting unit (similar to dealing with a bank, in real life) • Youth have more direct control over their finances promoting increased self-sufficiency

REVISED TRANSITIONAL HOUSING PROGRAM (THP) CORRECTIVE ACTION PLAN

<p>Issuance of monthly Trust Fund ledgers to THP youth after review by Housing Case Managers</p> <ul style="list-style-type: none"> Inconsistent adherence to policy by Case Managers 	<p>Issuance of Trust Fund ledgers directly to THP youth on a monthly basis with ongoing instructions to:</p> <ul style="list-style-type: none"> Review the ledger (statement) thoroughly and reconcile with copies of DR receipts in possession. Youth to sign-off on account statement and return to DCFS accounting section. Report any concerns directly to Housing Manager Otho Day (telephone and email address provided) Adhere to no cash payment/deposits Teach/encourage THP youth to be active and accountable stakeholders in managing their own resources <p>NOTE: The first monthly ledger mailing (June) will have an Auditor-Controller confirmation cover memo, which asks youths to notify the A/C of any discrepancies or concerns about their ledgers. A self-addressed stamped envelope will be included or youths can call or email the identified A/C contact person.</p>	<p>6/10/11 (for May 2011 account activity)</p> <p>COMPLETED</p>	<p>Management: Otho Day</p> <p>Admin Support: Derrick Dedmon</p>	<ul style="list-style-type: none"> Youth have more direct control over their finances promoting increased self-sufficiency Management is alerted to possible/potential situations of fraud
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REVISED TRANSITIONAL HOUSING PROGRAM (THP) CORRECTIVE ACTION PLAN

Although protocols were in place to monitor youth compliance, no review of activity payment/deposit rates of youth exists within policy to identify possible fraudulent actions.	Housing CSA III and CSA II will utilize accounting reports to assess the activity rates of THP youth payments/payments into their accounts <ul style="list-style-type: none"> Address activity rates (low) directly with Housing SCSW and Housing Case Manager (CSW III) 	6/15/11	Management: Otho Day Program: Zachery Jenkins	<ul style="list-style-type: none"> Monitoring activity rates of THP participants identifies: (1) compliance towards the HUD grant requirement of savings by youths; and (2) low activity rates of deposits can prompt management to assess for possible/potential situations of fraud
Managers are instructed to report allegations of employee misconduct to Human Resources and/or Internal Affairs, however, a written protocol including timelines does not exist.	Develop and implement a protocol identifying for managers and supervisors the types of allegations which require reporting to Human Resources and/or Internal Affairs and timelines for reporting.	6/30/11	Human Resources: Wanda Hazel Risk Management: Norma Dreger	<ul style="list-style-type: none"> Consistent and timely process for referral of cases Ability to track referrals to resolution Appropriate adherence to County protocol on investigations involving criminal activity
Managers are instructed to elevate high profile issues to executive management, however, no protocol exists to identify the types of allegations that should be elevated, the level of detail to provide, and with in what timeframes. Reports to Board occur as determined by the Department Head.	Develop and implement a protocol identifying matters requiring elevation. <ul style="list-style-type: none"> Delineate timeframes for notification Outline information to be included Create consistent process for Board notification 	6/30/11	Board Relations: Aldo Marin Human Resources: Wanda Hazel Risk Management: Norma Dreger	<ul style="list-style-type: none"> Consistent and timely reporting internally and to the Board Support in resolving issues timely